

Message Text

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ACTION H-03

INFO OCT-01 EUR-08 ISO-00 SS-07 AID-01 NSC-06 /026 W

----- 057757

R 091131Z DEC 76

FM AMEMBASSY ROME

TO SECSTATE WASHDC 1690

C O N F I D E N T I A L SECTION 1 OF 2 ROME 20034

DEPARTMENT FOR H (SENATOR JAVITS); PASS TREASURY AFTER
APPROVAL BY SENATOR JAVITS

E. O. 11652: GDS

TAGS: OREP, EFIN, ECON, PINT, IT

SUBJ: SENATOR JAVITS' MEETING WITH ITALIAN ECONOMIC LEADERS

1. SUMMARY. DURING WORKING LUNCH ON DECEMBER 7, FOLLOWING WERE
MAIN SUBJECTS DISCUSSED BY SENATOR JACOB JAVITS WITH
ITALIAN LEADERS: (1) POLITICAL IMPLICATIONS OF JUNE
PARLIAMENTARY ELECTION OUTCOME; (2) INTERACTION OF CURRENT
ITALIAN ECONOMIC AND POLITICAL SITUATION (ESPECIALLY ROLE
OF PCI); AND (3) POSSIBLE AID TO ITALY FROM THE U.S.
END SUMMARY.

2. WORKING LUNCH. THE CHARGE ENTERTAINED SENATOR JAVITS
AND HIS AIDE ALBERT LAKELAND AT WORKING LUNCH DECEMBER 7.
INVITEES INCLUDED SENATOR GAETANO STAMMATI, MINISTER OF
THE TREASURY; DR. GUIDO CARLI, PRESIDENT OF CONFINDUSTRIA;
PROF. PAOLO BAFFI, GOVERNOR OF THE BANK OF ITALY; SENATOR
URBANO ALETTI, PRESIDENT OF MILAN STOCK EXCHANGE; MR.
GERALD KELTON, PRESIDENT, ROME CHAPTER OF AMERICAN CHAMBER
OF COMMERCE (MERRILL LYNCH); PLUS EMBASSY OFFICERS.

3. ROLE OF U.S. CONGRESS. SENATOR JAVITS BEGAN DIS-
CUSSION BY COMMENTING THAT HE WAS AWARE THAT, BECAUSE
OF ITALY'S PRESENT ECONOMIC DIFFICULTIES, GOI WAS SEEKING
FOREIGN FINANCIAL ASSISTANCE. IF PENDING IMF STANDBY
WERE SUFFICIENT, U.S. CONGRESS MIGHT NOT BECOME DIRECTLY
INVOLVED. HOWEVER, IF SUPPLEMENTARY BILATERAL ASSISTANCE
WERE REQUIRED (AS HE THOUGHT WOULD BE THE CASE) THEN
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MEMBERS OF THE U.S. CONGRESS WOULD HAVE TO EVALUATE

ITALIAN ECONOMIC AND POLITICAL SITUATION. UNDER THOSE CIRCUMSTANCES, SENATOR JAVITS WAS CERTAIN THAT QUESTION WOULD BE POSED, "WHY SHOULD WE GIVE FINANCIAL ASSISTANCE TO STRENGTHEN ITALIAN ECONOMY IF IT WILL THEN FALL INTO HANDS OF COMMUNISTS?"

4. OUTCOME OF JUNE ELECTIONS. MINISTER STAMMATI STRESSED THAT IT WAS NECESSARY TO PLACE IN PROPER PERSPECTIVE OUTCOME OF JUNE PARLIAMENTARY ELECTIONS AND TO UNDERSTAND CURRENT INTERACTION BETWEEN POLITICAL AND ECONOMIC AFFAIRS IN ITALY. IT SHOULD NOT BE FORGOTTEN THAT COMMUNISTS PARTY (PCI) DID NOT ACHIEVE ITS GOAL IN JUNE ELECTIONS OF SUPPLANTING CHRISTIAN DEMOCRATS (DC) AS LARGEST PARTY. IN MEANTIME, THERE WERE IMPORTANT CHANGES GOING ON INSIDE DC AND OTHER POLITICAL PARTIES. FOR EXAMPLE, BOTH HE AND SENATOR ALETTI HAD ENTERED POLITICS FOR FIRST TIME AT JUNE ELECTIONS, EVEN THOUGH THEIR PREVIOUS EXPERIENCE HAD BEEN IN PUBLIC ADMINISTRATION AND IN BUSINESS. THIS WAS BECAUSE THEY WERE BOTH CONCERNED ABOUT PRESERVING ITALY'S DEMOCRATIC INSTITUTIONS. ALETTI ECHOED SIMILAR THEME, TERMING DC'S SUCCESS IN MAINTAINING RELATIVE MAJORITY IN JUNE ELECTIONS A MAJOR FEAT UNDER CIRCUMSTANCES OF ALMOST UNANIMOUSLY HOSTILE PRESS, DC'S ORGANIZATIONAL DISARRAY AND INEPT PUBLIC RELATIONS. THUS, HE CONCLUDED, DC WAS NOT CONDEMNED TO CONTINUED DECLINE BUT RATHER HAD GOOD CHANCE TO REVERSE SITUATION THROUGH IMPROVED ORGANIZATION AND PUBLIC RELATIONS AND, EQUALLY IMPORTANT, CHANGE IN DEFEATIST MENTALITY THAT COMMUNISM IS BOUND TO TRIUMPH.

5. ECONOMIC SITUATION. DR. CARLI DESCRIBED CURRENT ECONOMIC SITUATION AS DERIVING FROM INCONSISTENCY IN ITALIAN ECONOMIC GOALS IN RECENT YEARS. IN PARTICULAR, RATE OF ECONOMIC GROWTH AND HIGH RATE OF INFLATION WERE NOT CONSISTENT WITH BALANCE OF PAYMENTS EQUILIBRIUM. PAST ECONOMIC POLICIES LED TO DECLINE IN PROFITS, DROP IN INVESTMENT AND INADEQUATE CREATION OF NEW JOBS. AT SAME TIME, ITALIAN BUSINESS HAD BECOME TOO DEPENDENT UPON BANK CREDIT RATHER THAN ON EQUITY CAPITAL (A THEME ALSO STRESSED BY ALETTI). TWO IMPORTANT PROBLEMS HAD

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TO BE DEALT WITH: LARGE TREASURY DEFICIT AND TOO RAPID AN INCREASE IN LABOR COSTS. NEW GOI STABILIZATION PROGRAM WAS AIMED AT CORRECTING THESE TWO BASIC PROBLEMS. IN ORDER TO DO SO, COOPERATION OF LABOR UNIONS WAS REQUIRED. WHILE NATIONAL LABOR UNION LEADERS HAD BECOME AWARE OF SERIOUSNESS OF PROBLEM, THEY WERE STILL HAVING PROBLEMS IN CONVINCING WORKERS AT GRASS ROOTS OF NEED FOR SACRIFICES.

6. FOREIGN ASSISTANCE. CARLI SAID THAT WILLINGNESS OF GOI TO ACCEPT ZERO GROWTH IN 1977 AS PRICE OF REDUCING INFLATION AND OF ELIMINATING BALANCE OF PAYMENTS DEFICIT SHOWED EXTENT TO WHICH ITALIAN LEADERS WERE DETERMINED TO CORRECT EXISTING PROBLEMS. SENATOR JAVITS WONDERED HOW LONG ITALY WOULD HAVE TO ACCEPT ZERO GROWTH BECAUSE OF BALANCE OF PAYMENTS REASONS. GOVERNOR BAFFI SAID THIS WOULD DEPEND UPON PROGRESS IN REDUCING LABOR COSTS AND BUDGET DEFICIT. REDUCTION IN BUDGET DEFICIT WAS IMPORTANT BECAUSE DEFICIT CONSTITUTED NEGATIVE PUBLIC SAVINGS, WHICH MADE FINANCING OF INVESTMENT DIFFICULT. BAFFI THOUGHT THAT, UNTIL GOI STABILIZATION HAD FULL EFFECT, SOME FOREIGN ASSISTANCE WOULD BE REQUIRED. HE LISTED FORMS OF ASSISTANCE IN ORDER OF PRIORITY; (1) ACTION BY ITALY'S TRADING PARTNERS TO ASSURE AN ADEQUATE RATE OF ECONOMIC GROWTH IN THEIR OWN COUNTRIES WITHOUT REKINDLING INFLATION; (2) AGREEMENT AMONG MAJOR COUNTRIES TO RESIST PROTECTIONIST MEASURES WHICH COULD JEOPARDIZE FREE TRADE AND GROWTH OF ITALIAN EXPORTS; (3) CREATION OF SOME KIND OF FINANCIAL MECHANISM TO REDISCOUNT ITALIAN EXPORT CREDITS, E.G., THROUGH NEW EUROPEAN EXPORT BANK OR THROUGH REFINANCING BY U.S. PRIVATE BANKS; (4) MEDIUM-TERM CREDITS THROUGH MULTILATERAL INSTITUTIONS AND SHORT-TERM CREDITS, INCLUDING BILATERAL CREDITS, TO COMBAT CURRENCY SPECULATION; AND (5) GRANT ASSISTANCE.

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ACTION H-03

INFO OCT-01 EUR-08 ISO-00 AID-01 SS-07 NSC-06 /026 W

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R 091131Z DEC 76

FM AMEMBASSY ROME

TO SECSTATE WASHDC 1691

C O N F I D E N T I A L SECTION 2 OF 2 ROME 20034

DEPARTMENT FOR H (SENATOR JAVITS); PASS TREASURY AFTER APPROVAL BY SENATOR JAVITS

7. NEED FOR POLITICAL CONSENSUS. CARLI STRESSED THAT THE WIDEST POSSIBLE POLITICAL CONSENSUS WAS REQUIRED IN ORDER TO OBTAIN MAXIMUM COOPERATION IN STABILIZATION

EFFORT. MINISTER STAMMATI ADDED THAT HE BELIEVED THAT PRIME MINISTER ANDREOTTI, WHO WAS THAT VERY MOMENT IN WASHINGTON, WOULD EXPLAIN TO AMERICAN LEADERS THE ESSENTIAL DIFFERENCE BETWEEN LIMITED COOPERATION BY THE DC AND PCI IN PARLIAMENT AND ACTUAL PARTICIPATION BY THE DC AND PCI IN PARLIAMENT AND ACTUAL PARTICIPATION BY THE PCI IN THE GOVERNMENT.

8. ROLE OF PCI. THE CHARGE INQUIRED AS TO WHETHER IT WAS REALLY TRUE THAT PCI COULD CONTROL LARGEST LABOR UNION (CGIL) AND WHETHER PCI HAD ANY REAL ALTERNATIVE TO CONTINUED COOPERATION WITH ANDREOTTI GOVERNMENT. FOR EXAMPLE, IF PCI WITHDREW ITS ABSTENTION IN PARLIAMENT, BRINGING DOWN THE GOVERNMENT, COMMUNISTS MIGHT VERY WELL BE ACCUSED OF DELIBERATELY THWARTING ECONOMIC STABILIZATION PROGRAM AND, THUS, PERMANENTLY JEOPARDIZE SUPPORT OF MIDDLE CLASS WHICH PCI HAS BEEN ATTEMPTING TO WIN OVER IN RECENT YEARS. DR. CARLI REPLIED THAT THERE WERE STILL A LOT OF OPEN QUESTIONS CONCERNING THE IMPLICATIONS IN A DEMOCRATIC SOCIETY OF PARTICIPATION IN THE GOVERNING PROCESS BY A COMMUNIST PARTY WHICH HAD GAINED ABOUT 35 PERCENT OF THE POPULAR VOTE THROUGH FREE ELECTIONS. HE THOUGHT THAT THERE HAD HISTORICALLY BEEN TWO EXAGGERATED VIEWS OF THE PCI: ONE WAS THAT THEY WERE "DEVILS" TO BE OPPOSED IN EVERY WAY, AT ALL COSTS, AND THE OTHER WAS CONFIDENTIAL

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THAT THEIR EVENTUAL ACCESSION TO POWER WAS "INEVITABLE." HE THOUGHT THAT THE BRIEF EXPERIENCE OF PCI ABSTENTION SINCE FORMATION OF ANDREOTTI GOVERNMENT HAD SHOWN THAT ASSUMPTION OF CO-RESPONSIBILITY FOR DIFFICULT POLICY MEASURES ENDED EASY PERIOD WHEN PCI COULD SIMPLY SNIPE AT GOVERNMENT. CARLI WONDERED WHETHER PCI HAD NOW REACHED ITS POLITICAL PEAK. GOVERNOR BAFFI COMMENTED THAT, APART FROM PURELY POLITICAL CONSIDERATIONS, IF PCI INCREASINGLY HAD INFLUENCE OVER ECONOMIC POLICY, WHENEVER IT WERE CONFRONTED WITH A CHOICE BETWEEN RELIANCE UPON MARKET FORCES AND IMPOSITION OF CONTROLS, IT WOULD CHOOSE THE LATTER. THIS COULD LEAD TO A CLOSED ECONOMY AND, EVENTUALLY, TO A CLOSED POLITICAL SYSTEM AS WELL.

9. RESPONSIBILITIES OF DC AND OTHER PARTIES. DR. CARLI AT ONE POINT IN CONVERSATION ACCUSED DC OF BEARING CONSIDERABLE RESPONSIBILITY FOR CURRENT ECONOMIC DIFFICULTIES BECAUSE IT HAD PURSUED "FASHIONABLY LEFTIST" ECONOMIC POLICIES IN RECENT YEARS. SENATOR ALETTI WAS CRITICAL OF SMALLER PARTIES ON GROUNDS THAT THEIR FAILURE TO COOPERATE WITH DC FOLLOWING JUNE ELECTIONS HAD FORCED CHRISTIAN DEMOCRATS TO ACCEPT SOME DEGREE OF COOPERATION

WITH THE PCI.

10. CONCLUSION. MINISTER STAMMATI SUMMED UP CURENT
ITALIAN POLITICAL AND ECONOMIC SITUATION AND GOVERNMENT
EFFORTS TO DEAL WITH ECONOMIC PROBLEMS. HE SAID THAT
ITALIAN INFLATION SHOULD NOT BE VIEWED ON PURELY

IDEOLORAL TERMS. NONETHELESS, GOI EFFORT TO FIGHT
INFLATION WITHOUT INCREASING UNEMPLOYMENT NECESSARILY
CREATED POLITICAL ISSUES. STILL, GOI STABILIZATION
EFFORT, WHICH WOULD NOT BE EASY NOR QUICKLY ACCOMPLISHED,
MUST BE PURSUED WITH DETERMINATION. DC MUST ALSO WORK
TO IMPROVE EFFICIENCY OF GOVERNMENTAL APPARATUS AND
PRESERVE DEMOCRATIC INSTITUTIONS. IT SHOULD NOT HESITATE
TO TAKE ADVANTAGE OF THE UNCERTAINTY AND DISCONTENT
WITHIN PCI WHICH HAS BEEN CAUSED BY PCI'S ACCEPTANCE
OF SOME GOVERNMENTAL RESPONSIBILITY FOR DEALING WITH
ITALY'S CURRENT PROBLEMS.
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11. THIS MEMCON HAS NOT BEEN CLEARED WITH SENATOR
JAVITS.BEAUDRY

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC TRENDS, FOREIGN ASSISTANCE, MEETINGS, MEETING REPORTS
Control Number: n/a
Copy: SINGLE
Draft Date: 09 DEC 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: vogelfj
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976ROME20034
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D760455-0046
From: ROME
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19761258/aaaabtx.tel
Line Count: 250
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION H
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: vogelfj
Review Comment: n/a
Review Content Flags:
Review Date: 12 MAY 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <12 MAY 2004 by BoyleJA>; APPROVED <09 SEP 2004 by vogelfj>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: SENATOR JAVITS' MEETING WITH ITALIAN ECONOMIC LEADERS
TAGS: OREP, EFIN, ECON, PINT, IT, (JAVITS, JACOB K)
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006